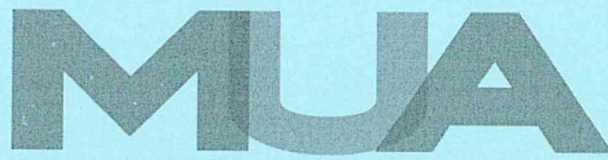


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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF LEADERSHIP AND MANAGEMENT

BML 307 : RISK MANAGEMENT AND INSURANCE

DATE: 21ST JULY 2017

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. **Write all your answers in the Examination answer booklet provided.**

QUESTION ONE

Read the Case Study below carefully and answer the questions that follow:

Following the September 11, 2001, terrorist attacks, the Federal Aviation Administration under the U.S. Department of Homeland Security wrestled with a large question: how could a dozen or more hijackers armed with knives slip through security checkpoints at two major airports? Sadly, it wasn't hard. Lawmakers and security experts had long complained about lax safety measures at airports, citing several studies over the years that had documented serious security lapses. "I think a major terrorist incident was bound to happen," Paul Bracken, a Yale University professor who teaches national security issues and international business, told *Wired* magazine a day after the attacks. "I think this incident exposed airport security for what any frequent traveler knows it is—a complete joke. It's effective in stopping people who may have a cigarette lighter or a metal belt buckle, but against people who want to hijack four planes simultaneously, it is a failure."

Two days after the attacks, air space was reopened under extremely tight security measures, including placing armed security guards on flights; ending curbside check-in; banning sharp objects (at first, even tweezers, nail clippers, and eyelash curlers were confiscated); restricting boarding areas to ticket-holding passengers; and conducting extensive searches of carry-on bags.

In the years since the 2001 terrorist attacks, U.S. airport security procedures have undergone many changes, often in response to current events and national terrorism threat levels. Beginning in December 2005, the Transportation Security Administration (TSA) refocused its efforts to detect suspicious persons, items, and activities. The new measures called for increased random passenger screenings. They lifted restrictions on certain carry-on items. Overall, the changes were viewed as a relaxation of the extremely strict protocols that had been in place subsequent to the events of 9/11.

The TSA had to revise its airline security policy yet again shortly after the December 2005 adjustments. On August 10, 2006, British police apprehended over twenty suspects implicated in a plot to detonate liquid-based explosives on flights originating from the United Kingdom bound for several major U.S. cities. Following news of this aborted plot, the U.S. Terror Alert Level soared to red (denoting a severe threat level). As a result, the TSA quickly barred passengers from carrying on most liquids and other potentially explosives-concealing compounds to flights in U.S. airports. Beverages, gels, lotions, toothpastes, and semisolid cosmetics (such as lipstick) were thus expressly forbidden.

Less-burdensome modifications were made to the list of TSA-prohibited items not long after publication of the initial requirements. Nevertheless, compliance remains a controversial issue among elected officials and the public, who contend that the many changes are difficult to keep up with. Many contended that the changes represented too great a tradeoff of comfort or convenience for the illusion of safety. Too many citizens, though, the 2001 terrorist plot served as a wake-up call, reminding a nation quietly settling into a state of complacency of the need for continued vigilance. Regardless of the merits of these viewpoints, air travel security will no doubt remain a hot topic in the years ahead as the economic, financial, regulatory, and sociological issues become increasingly complex.

Required:

- a) Identify the morale or moral hazards associated with the homeland security monitoring and actively searching people and doing preflight background checks on individuals prior to boarding. (10 Marks)
- b) Discuss Risk management process in relation to the case above. (10 Marks)
- c) Identify the risks that have been incurred in the case above and how they have been mitigated (5 Marks)

QUESTION TWO

Risk management is the process that identifies the loss exposures faced by an organization and selects the most appropriate techniques for treating such exposures

- a) List and explain the importance of risk management to an organization. (5 Marks)
- b) Explain how pooling independent risk exposures reduces risk. (5 Marks)
- c) List and explain ways in which a risk can be diversified. (5 Marks)

QUESTION THREE

- a) What is value does learning and implementing risk management have to
 - i) Governments (3 Marks)
 - ii) Businesses (3 Marks)
 - iii) Individuals (3 Marks)
- b) Discuss the methods used to measure risks in organizations (6 Marks)

QUESTION FOUR

Regardless of the type of risk. The risk management process involves several steps. The steps apply to business and individual risk management.

- a) Discuss the methods used to manage personal and business risks (10 Marks)
- b) List and explain four pure risks that are likely to affect the business (5 Marks)

QUESTION FIVE

Insurance business is a business just like any other business in the market. It is bound to regulations by law to ensure that the customers interested have been well catered for and also the interests of the organization.

- a) Discuss how the insurance business has been regulated in Kenya. (5 Marks)
- b) Explain why it is important to have insurance business regulated. (10 Marks)

QUESTION SIX

- a) Discuss the components of a valid insurance contract. **(5 Marks)**
- b) Explain Enterprise Risk management (ERM) and give reasons why it is important for organizations to have such a system in place. **(10 Marks)**

